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April 19, 2004

AGENDA ITEM 6b

TO: MEMBERS OF THE INVESTMENT COMMITTEE

I. SUBJECT: Global Equity Investment Strategy for the

Environment

II. PROGRAM: Global Equity

III. RECOMMENDATION Information only

IV ANALYSIS

Background

In February 2004, the Treasurer's Office initiated an "Environmental Investment Proposal for Consideration By CalPERS and CalSTRS." Please see Attachment 1. There are two topics that pertain to Global Equity investment staff: The first request is for staff to examine how to encourage corporations to provide meaningful, consistent, and robust reporting of their environmental practices, risks and potential liabilities. The second request is to examine an investment strategy in environmentally screened public equity funds that are performing as well or better than their non-screened counterparts. Specifically, the Treasurer requested that CalPERS and CalSTRS should invest a combined \$1 billion of their stock portfolios in environmentally screened funds through leading active public equity investment managers with proven track records.

Improving Environmental Disclosure

This first topic will be discussed in a separate agenda item that will address the various options available to staff and the Board. Among other issues, staff will address the pros and cons of:

- 1) Addressing the topic on the company or Federal regulatory level,
- 2) From an investment perspective what types of disclosures we believe it is important to improve.
- 3) Whether we should survey other investors to determine what additional information investors desire.
- 4) What sorts of proposals CalPERS currently supports in its proxy voting process,

5) Resources required to implement any or all of the above alternatives.

CalPERS Research on Environmental Strategies

Currently staff is conducting research on the predictive nature of environmental data on stock price performance. Information in the marketplace suggests that although there is a moderately positive correlation between environmental factors and stock price performance, causation has yet to be determined. Staff is currently conducting quantitative research on returns of some environmental funds and databases to establish, on an attribution basis, that environmental factors indeed are linked to stock price performance. This research should be completed within two to three months.

Hiring External Managers

Preliminary research from Wilshire's database indicates that there are 10 to 15 investment management products in the socially responsible investing (SRI) category. A subset of this category represents environmental strategies. Staff believes that with the combination of using consultants and advertising we will be able to find any suitable managers for investment. Staff is willing to conduct a special search to seek out managers (with certain minimum qualifications) which have a superior record of managing money applying an environmentally oriented approach.

There are a two options in hiring external managers.

Option #1 The Committee allows staff to hire up to 5 managers for up to \$500 million total. Staff would request delegation of authority to conduct a search and contract with the managers.

Pros:

Lower fees.

Managers would be of institutional quality.

Cons:

The RFP process is labor intensive.

Search would not be completed until late 2004 to early 2005.

Option #2: The Committee allows staff to allocate up to \$500 million in some mutual funds that have good records.

Pros:

More administratively efficient.

Does not require an RFP process.

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Since this is a security, it does not require IC action or delegation. Gives staff more flexibility.

Cons:

Higher fees.

Less control over the Fund.

Subject to other investor's cash flows and higher cash levels.

Materiality

Initially, this program will have a small impact on the Fund.

Complexity

While the project is not complex to execute, it is somewhat complex to identify funds that extract alpha based solely on environmental factors.

Staff's preference is to do the search in as efficient a manner as possible with the utmost flexibility in the type of managers considered, the amount of assets invested per manager, the number of managers and the contracting mechanism (either a mutual fund or RFP with staff delegation). Staff will report back to the Committee on the managers chosen and performance will be reported to the Committee at least annually.

V. STRATEGIC PLAN:

Goal IV: Assure that sufficient funds are available, first to pay benefits and, second, to minimize and stabilize employer contributions.

VI. RESULTS/COSTS:

Costs will be comprised of the staf	f resources to conduct the search.
Performance based fees would be	used where possible.

Sheila Halousek Investment Officer	Mary C. Cottrill Senior Portfolio Manager
Christianna Wood	Mark Angon
Christianna Wood	Mark Anson
Senior Investment Officer	Chief Investment Officer

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OFFICE OF THE TREASURER

P. O. BOX 942809 SACRAMENTO, CA 94209-0001



SUMMARY OF TREASURER'S ENVIRONMENTAL INVESTMENT PROPOSAL FOR CONSIDERATION BY Calpers and Calstrs

This proposal calls on CalPERS and CalSTRS to implement the following four-pronged plan:

- Demand Environmental Accountability and Disclosure. Using their financial clout in the marketplace, and building on their track record of corporate governance leadership, CalPERS and CalSTRS should prod corporations to provide meaningful, consistent and robust reporting of their environmental practices, risks and potential liabilities. Through a new environmental governance program, CalPERS and CalSTRS should encourage companies through dialogue, shareholder resolutions and other actions to improve their environmental operations and reduce their environmental risks and liabilities. As part of this effort, California's pension funds would also join with other major U.S. investors to urge more comprehensive corporate reporting of environmental practices and liabilities. The coalition's effort would include such actions as urging the Securities and Exchange Commission to strengthen environmental disclosure rules, and seeking corporate reporting on such critical financial factors as climate risk assessment and global warming.
- Target Private Investment in Environmental Technologies. CalPERS and CalSTRS should invest a combined \$500 million in private equity investments, venture capital, and project financing to develop "clean" technologies that can provide the pension funds with positive, long-term returns, and that can create jobs and economic growth in California in the years ahead. Across the globe, demographic trends, public awareness, environmental crises and increased regulation and public policy attention are driving growth in the clean technology industry. Riding this wave of technological innovation will allow CalPERS and CalSTRS to help build an industry critical to the State and nation, while earning those positive returns for pensioners and taxpayers and addressing environmental problems.
- Invest in Stocks of Environmentally Responsible Companies. CalPERS and CalSTRS should invest a combined \$1 billion of their stock portfolios in environmentally screened funds through leading active public equity investment managers with proven track records. An increasing number of recent investment research studies have shown that environmentally screened funds are outperforming their non-screened counterparts. Investing in such funds will not only provide CalPERS and CalSTRS with the opportunity for enhanced financial returns, but will also send a strong signal to corporations about the added value of responsible, forward-looking environmental practices. Under this proposal, the performance of any manager selected must equal or exceed that of the funds' existing, active managers.

• Audit real estate portfolios to boost long-term value. CalPERS and CalSTRS should undertake a comprehensive audit of their respective real estate investments to determine whether the investments are maximizing their opportunities to use clean energy, energy efficiency and green building standards and practices that reduce long-term costs and boost long-term value. CalPERS and CalSTRS have nearly \$16 billion invested in real estate and property in California, the nation and 22 countries throughout the world. CalPERS and CalSTRS own nearly 160 million square feet of office and industrial space alone.

The Treasurer requests both CalPERS and CalSTRS to put the proposal on their respective agendas for later this spring and summer.

Demand Environmental Accountability and Disclosure

- Among the 20 biggest corporate emitters of greenhouse gases, 17 report that they have conducted a board-level review of climate change, according to a study by CERES.
 (Source: Douglas G. Cogan, "Corporate Governance and Climate Change: Making the Connection," Investor Responsibility Research Center (June 2003).)
- Weather damage, pollution, and industrial and agricultural losses related to global warming could cost \$300 billion annually by 2050, according to estimates by the German insurance company Munich Re. (Source: Gerhard Berz, Munich Re Geoscience Research Group, "Insuring Against Catastrophe," *Our Planet*, United Nations Environmental Programme (February 2001), as cited in Amy Cortese, "As the Earth Warms, Will Companies Pay?" *New York Times* (August 18, 2002).)
- The water industry alone could face nearly \$47 billion in additional costs within the next 50 years due to climate change, according to the head of the Geoscience Research Group at Munich Re, one of the world's largest re-insurers. (Source: Gerhard Berz, Munich Re Geoscience Research Group, "Insuring Against Catastrophe," Our Planet (United Nations Environmental Programme) (February 2001).)
- In 2001, the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD) issued an international standard that enables businesses to uniformly report their emissions of greenhouse gases. The standard, called the Greenhouse Gas Protocol Initiative or "GHG Protocol," was developed over a three-year period by a partnership of over 350 individuals from corporations, non-profit organizations, and governments. Companies that use or otherwise rely upon the GHG Protocol to measure and report their emissions include Ford Motor Company, Eastman Kodak, IBM, General Electric, Lockheed Martin Corporation, U.S. Steel Corporation, and Verizon Communications. (Source: For a complete list of Protocol users, see http://www.ghgprotocol.org/standard/users.htm.)
- Concentrated risk argues for the need for better investor intelligence and information, illustrated by the fact that a small number of companies appear to face the greatest potential regulation and litigation. Only 20 petroleum and coal companies produce products that generate nearly half of the world's carbon emissions; 13 companies manufacture approximately 90 percent of the vehicles driven in the U.S.; 100 power generators are responsible for an estimated 88 percent of the greenhouse gas emissions produced by the generation of electricity in the U.S. (Source: Diane Wittenberg, California Climate Action Registry.)
- Nearly three-quarters of companies that were fined more than \$100,000 for environmental violations failed to report such damages in their annual filings, according to a 1998 EPA study. (Source: U.S. Environmental Protection Agency, "Guidance on Distributing the Notice of SEC Registrants' Duty to Disclose Environmental Legal Proceedings in EPA Enforcement Actions" (1998), as cited in Susannah Blake Goodman,

Jonas Kron, Tim Little, *The Environmental Fiduciary: The Case for Incorporating Environmental Factors into Investment Management Policies*, The Rose Foundation for Communities and the Environment (2002).)

- As much as 15 percent of the total market capitalization of major companies may be put at risk by climate change, according to Innovest Strategic Value Advisors, an investment research and advisory firm specializing in analyses of corporate performance on environmental, social, and strategic governance issues. (Source: Innovest Strategic Value Advisors, Carbon Finance Benchmarking of the U.S. Electric Utilities Industry (June 2001), as cited in Amy Cortese, "As the Earth Warms, Will Companies Pay?" New York Times (August 18, 2002).)
- Shareholders in leading oil and gas companies could lose as much as 5 to 7 percent of the value of their investments because of regulatory and other efforts to respond to climate change, according to the World Resources Institute. (Source: World Resources Institute, Changing Oil: Emerging environmental risks and shareholder value in the oil and gas industry (July 2002).)
- The discounted present value of potential carbon liabilities economic risks that a company faces relative to its sector due to carbon emissions within a single emissions-intensive manufacturing firm could represent as much as 40 percent of its entire market capitalization under certain plausible high-risk scenarios, according to the Carbon Disclosure Project, an international consortium of institutional investors representing \$4.5 trillion in assets. (Source: Carbon Disclosure Project, "Carbon Finance and the Global Equity Markets," (2003).)
- Greenhouse gas emitters could face heightened litigation costs, similar to tobacco, asbestos, mold, and manufacturers of products or processes that lead to environmental and public health harms, as awareness of the magnitude of climate change emerges. (Source: Vanessa Houlder, "Climate Change Could be Next Legal Battlefield," *Financial Times* (July 14, 2003).)

Target Private Investment in Environmental Technologies

- Clean technology has emerged as the sixth largest venture investment category in the U.S. and Canada, behind information technology, software, biotechnology, health care, and telecommunications. According to Cleantech Venture Network, LLC, in 2002, investments in energy-related clean technologies represented nearly half (45.5 percent) of all clean technology investments. The remaining investments in clean technologies included enabling technologies -- technologies developed by biological, computational, and physical scientists and engineers that enable better use of natural resources and greatly reduce ecological impact (14 percent); materials and nanotechnology (13.8 percent), materials recovery and recycling (8 percent), and water-related technologies (4 percent). (Source: Cleantech Venture Network, LLC, Venture Monitor Q1 2003.)
- Venture capital investments in clean technologies were estimated to reach \$1.3 billion for the year 2003. Clean technology captured 7.4 percent of the \$4.3 billion in venture capital invested overall in the U.S. during the third quarter of 2003. In 2002, just under \$1.1 billion in venture capital was invested in 179 clean technology companies, according to Cleantech Venture Network, LLC. (Source: Cleantech Venture Network, LLC, Venture Monitor Q1 2003.)
- The global market for renewable energy is estimated to reach as much as \$625 billion by 2010, and \$1.9 trillion by 2020, according to estimates by the World Energy Council. (Source: Carbon Disclosure Project, "Carbon Finance and the Global Equity Markets," (2003).)
- California was once the leading home of wind and solar manufacturing; today, jobs in those industries are mostly found abroad. For example, 45,000 people within the European Union are now employed in wind power manufacturing. The European Wind Energy Association estimates that electricity generated by windmills will increase more than 700 percent between 2002 and 2010 in Europe. (Source: Peter Asmus, Reaping the Wind: How Mechanical Wizards, Visionaries, and Profiteers Helped Shape Our Energy Future, as cited in Clean Edge, Bringing Solar to Scale: A Proposal to Enhance California's Energy, Environmental, and Economic Security (July 2003).)
- For every megawatt of solar power, 35.5 jobs are created in manufacturing, installation, servicing, sales, and marketing, according to the Renewable Energy Policy Project. The worldwide solar PV market, including sales of modules, system components, and installations, totaled \$3.5 billion in 2002 and is projected to rise to \$27.5 billion by 2012, according to Clean Edge research. Annual global manufacturing output of solar PV modules has more than tripled in the past four years. Japan, the global solar manufacturing leader, accounted for nearly half of the manufacturing output in 2002, expanding fivefold since 1998. The U.S., the second largest producer, nearly doubled its production in just four years. (Source: Solar Catalyst Group, "Solar Opportunity Assessment Report," (December 2003).)

Invest in Stocks of Environmentally Responsible Companies

- Companies that engage in environmentally responsible practices can achieve better financial results, according to a number of studies.
 - One report produced by Light Green Advisors, Inc., a Seattle-based investment advising firm, examined 20 leading empirical studies that examined the correlation between environmental and financial performance covering a 10-year range of research. Among the findings, it is reported that companies that go beyond legal compliance with environmental regulations realize stronger stock price gains and market value growth than the S&P. In contrast, laggard companies that are threatened by actual or impending environmental laws tended to experience weaker returns. (Source: Christopher J. Murphy, "The Profitable Correlation Between Environmental and Financial Performance: A Review of the Research." Light Green Advisors, Inc. (2002).)
 - O Another study, by the University of Michigan's William Davidson Institute, analyzed data from the mid-1990s on the stock market performance and environmental policies of 89 major U.S. mining and manufacturing companies with production facilities in developing nations, finding that the market valuation of companies with strict global environmental standards was some 80 percent higher, relative to their physical assets, than that of companies using local standards for their operations. (Source: Glen Dowell, Stuart Hart, Bernard Yeung, "Do Corporate Global Environmental Standards Create or Destroy Market Value?" Management Science, Vol. 46, No. 8 (August 2000).)
 - Shares of companies with good sustainability records perform better than those of their less socially responsible competitors, according to a study of over 600 companies for the period December 31, 1999 to October 27, 2003, by Germany's Ockom Research independent sustainability rating agency, in conjunction with Morgan Stanley Dean Witter. (Source: Global Finance (January 2004).)
 - Studies indicate that investment funds comprised of companies with superior environmental profiles tend to be more profitable than the S&P 500. Environmental screening appeared to raise, rather than reduce, financial returns of investment portfolios. (Source: See, for example, John Buffington and John Ganzi, "2000 Annual Review of Eco-Efficiency Funds," Finance Institute for Global Sustainability (2000); Ralph Earle, The Emerging Relationship Between Environmental Performance and Shareholder Wealth," Assabet Group (2000), as cited in Murphy (2002).)

- The Domini Social Equity 400 Index has outperformed the S&P 500 on a total-return basis and on a risk-adjusted basis since its inception in May 1990. (Source: CBS MarketWatch, January 14, 2004, quoting Peter Kinder, president of KLD Research and Analytics.)
- Environmentally and socially screened portfolios grew by 7 percent despite the market downturn of 2001 and 2002, moving these funds from the margins to the mainstream of the financial markets. In 2002, environmentally screened mutual funds held nearly \$29 billion in assets. (Source: Social Investment Forum, "2003 Report on Socially Responsible Investing Trends in the United States," (updated December 2003).)

Audit Real Estate Portfolios to Boost Long-Term Value

- CalPERS and CalSTRS hold more than \$16 billion in real estate holdings in 22 countries around the globe, with over half of those holdings in office and industrial space. CalSTRS' Real Estate Portfolio includes 15.5 million square feet of office space worth \$2.4 billion and 32.2 million square feet of industrial space valued at \$975 million. CalPERS' Real Estate portfolio includes 16.4 million square feet of office space, worth \$2.3 billion and 95.5 million square feet of industrial space, at a value of \$2.9 billion.
- The federal government has encouraged energy efficiency through the national Energy Star program. Companies including product manufacturers, builders, and retailers that actively participated in the Energy Star program through voluntary partnerships with the U.S. Environmental Protection Agency outperformed companies that were not involved in the Energy Star program by more than 12 percent during the two-year period of 2000-2001. More than 15,000 of the nation's buildings have been rated using EPA's national energy performance rating system, and more than 1,100 buildings have earned the Energy Star label for superior energy performance. (Source: Innovest Strategic Value Advisors, "Energy Management and Investor Returns: The Real Estate Sector" (October 2002).)
- California's tough energy efficiency standards have resulted in substantial cost savings. This efficiency is due in part to stringent energy efficiency standards for buildings and appliances that have been in effect and periodically updated since 1978. Through the Energy Efficiency Standards for Residential and Nonresidential Buildings (also known as Title 24 building standards) along with standards for energy efficient appliances, California has saved more than \$20 billion in electricity and natural gas costs since 1978. It is estimated California will save \$57 billion by 2011 due to these standards. (Source: California Energy Commission, http://www.energy.ca.gov/title24/index.html.)
- Real estate companies with above average energy management performance, taken as a group, tended to outperform below average companies by approximately 34 percent on Wall Street over the two-year period of 2000-2001, according to research conducted by Innovest Strategic Value Advisors. (Source: Innovest Strategic Value Advisors, "Energy Management and Investor Returns: The Real Estate Sector" (October 2002).)
- Companies owning energy-efficient buildings demonstrate savings. For example, Southern California's largest landlord of commercial office space, which holds 129 properties consisting of 215 buildings and approximately 18.8 million net rentable square feet, now owns the most energy-efficient buildings in a single portfolio in the nation. As a result, the firm has reduced its annual energy costs by approximately \$4.8 million through energy efficiency measures. Another example is provided by one of the nation's largest owners of office buildings (700 office buildings nationwide), which is installing distributed generation equipment at 12 of its buildings as a pilot project. While each system costs as much as \$5 million, the owner believes it can recover the cost over time by reducing the amount of electricity it has to buy from the grid during times of peak demand. (Source: Innovest Strategic Value Advisors, "Energy Management and Investor Returns: The Real Estate Sector," (October 2002); Jeffrey Ball, "Energizing Off-Grid Power," Wall Street Journal (August 18, 2003).)

• A minimal upfront investment of about 2 percent of construction costs in sustainable building practices and products typically yields life cycle savings of more than 10 times the initial investment, according to a recent study commissioned by California's Sustainable Building Task Force. (Source: Greg Kats et al., The Costs and Financial Benefits of Green Buildings: A Report to California's Sustainable Building Task Force (October 2003).)



CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION INVESTMENT COMMITTEE

MINUTES OF MEETING OPEN SESSION

April 19, 2004

The Investment Committee met on Monday, April 19, 2004 in the Lincoln Plaza Building, 400 P Street, Auditorium, Sacramento, California.

The meeting was called to order at approximately 9:30 a.m. and the following members were present:

Rob Feckner, Chair
Priya Mathur, Vice Chair
Sidney Abrams
Philip Angelides
Willie L. Brown, Jr.
Robert F. Carlson
George Diehr
Sean Harrigan
Michael Navarro
Mike Quevedo, Jr.
Kurato Shimada
Charles Valdes
Steve Westly

Ted Eliopoulos represented Philip Angelides Joy Higa represented Steve Westly

AGENDA ITEM 2 - APPROVAL OF AGENDA

The Chair announced that Items 6d, 6f, and 6g would be taken up after Item 3.

AGENDA ITEM 3 – APPROVAL OF MARCH 15, 2004 MEETING MINUTES

On **MOTION** by Mr. Harrigan, **SECONDED** and **CARRIED** that the March 15, 2004 Open Session minutes be approved as presented.

AGENDA ITEM 6d – PUBLIC MARKETS, Permissible Equity Market Research Contracts

Roz Hewsenian, Wilshire Associates, presented the item.

On **MOTION** by Mr. Harrigan, **SECONDED** and **CARRIED** to approve a one-year extension of the Oxford Analytica and Verite contracts subject to satisfactory negotiation of terms based on direction of the Board.

AGENDA ITEM 6f – PUBLIC MARKETS, Review of Permissible Equity Market Scoring for the Philippines, and AGENDA ITEM 6g – PUBLIC MARKETS, Updated Information for Other Non-Permissible Equity Markets

These two agenda items were considered together and resolved as follows.

Roz Hewsenian, Wilshire Associates, presented the Overall Summary of the Permissible Equity Markets Investment Analysis dated April 19, 2004.

Mr. Westly submitted a letter for the Committee's consideration regarding the development of a formal permissible equity markets policy. The Chair directed that the letter be forwarded to the Policy Subcommittee.

On **MOTION** by Mr. Harrigan, **SECONDED** and **CARRIED** to adopt the April 19, 2004 Permissible Equity Markets Analysis prepared by Wilshire Consulting which revised the scores for Poland, Czech Republic, Jordan, India, Philippines, Peru, Russia and Indonesia. This resulted in adding India, Philippines, and Peru as permissible equity markets.

There was a discussion regarding the permissible equity markets process and Wilshire Associates recommendations for change. The Chair directed staff to agendize a discussion of the process for a future Investment Committee meeting.

Comments supporting the change in the Philippines score were received from:

- Albert Del Rosario. Philippine Ambassador
- Claude Parrish, Board of Equalization Vice Chair
- Larry Asera, PEML for Philippines, Asera Group

AGENDA ITEM 4a – REAL ESTATE, First Washington Shopping Center Program Proposal

Michael McCook, Senior Investment Officer, Al Fernandez, Portfolio Manager, and Investment Officers Randy Pottle and Wenning Jung presented the item. Pam Alsterlind, PCA, was available to respond to questions from the Committee.

First Washington Reality representatives Stuart Halpert and Bill Wolfe were present to respond to questions from the Committee.

On **MOTION** by Mr. Harrigan, **SECONDED** and **CARRIED** to approve expansion of the "Alignment of Interests" Co-investment Partnership Agreement with First Washington Realty, Inc. (FRW) to include the western U.S. region shopping center portfolio.

AGENDA ITEM 4b – REAL ESTATE, Opportunistic Fund – Update and Additional Allocation Request

Michael McCook, Senior Investment Officer, Bryan Bailey, Portfolio Manager, and Julie Rost, Investment Officer, presented the item.

Allan Emkin and Pam Alsterlind, PCA, were available to respond to questions from the Committee.

On **MOTION** by Mr. Valdes, **SECONDED** and **CARRIED** to approve additional allocation of \$500 million for Opportunistic Real Estate Investments. Investments would be subject to PCA review, satisfactory due diligence and negotiation of appropriate terms and conditions.

A policy for this expansion will be presented at the June 2004 Policy Subcommittee meeting.

AGENDA ITEM 5a – ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM

Privatization Policy Update

Allan Emkin, Pension Consulting Alliance, reported that the proposed policy has been drafted and recommendations from PCA will be presented at the May meeting.

AGENDA ITEM 5b - ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM

AIM Delegation Authority Clarification

Rick Hayes, Senior Investment Officer, described proposed clarification of the delegation of authority for the definition of "Committed Capital". Further clarification regarding the "New Management Team" definition will be presented at the May meeting.

On **MOTION** by Mr. Harrigan, **SECONDED** and **CARRIED** to approve clarification to the definition of "Committed Capital" in Delegation Resolution #00-02-BD (Rev.) as outlined in Attachment 1 of the agenda item.

AGENDA ITEM 6a – PUBLIC MARKETS, Investment Protection Standards Update

Christy Wood, Senior Investment Officer, Ted White, Corporate Governance Director, and Craig Rhines, Investment Officer, provided an informational update regarding Section A compliance of the broker/dealers that are utilized internally to execute equity and fixed income trades.

There was a discussion on how to best proceed with efforts to raise the level of Investment Protection Standards compliance among the broker/dealer firms.

On **MOTION** by Mr. Angelides, **SECONDED** and **CARRIED** to direct staff to send letters to the non-compliant broker/dealer firms indicating our expectation of compliance and informing them that this matter will be returned to the Committee no later than the August meeting, at which point the Committee will determine what actions, if any, will be taken with respect to non-compliance.

AGENDA ITEM 6b – PUBLIC MARKETS, Global Equity Investment Strategy for the Environment

Christy Wood, Senior Investment Officer, provided an informational report regarding improving environmental disclosure, CalPERS research on environmental strategies, hiring external managers, materiality, and complexity.

On **MOTION** by Mr. Angelides, **SECONDED** and **CARRIED** to approve allowing staff to hire external managers through the use of either Option 1 – to hire up to 5 managers for up to \$500 million total; or Option 2 – to allocate up to \$500 million in some mutual funds that have good records; or a combination thereof to achieve the best results for the System.

On **MOTION** by Mr. Westly, **SECONDED** and **CARRIED** to approve:

- Calling on the Securities and Exchange Commission (SEC) and other appropriate parties to begin public hearings within six months to gather information on a reasonable standardized reporting and evaluation system for environmental performance.
- 2. Direction that staff report at the June or August meeting on existing efforts to standardize reporting and assessment of environmental practices, and what additional actions we might engage in.

AGENDA ITEM 6c – PUBLIC MARKETS, Pacific Investment Management Company Performance Update

Curtis Ishii, Senior Investment Officer, and Daniel Kiefer, Portfolio Manager, provided updated performance information for the domestic external high yield portfolio managed by PIMCO.

The Committee accepted the information report.

AGENDA ITEM 6e – PUBLIC MARKETS, Reincorporation Guidelines for Proxy Voting

Christy Wood, Senior Investment Officer, Ted White, Corporate Governance Director, and Bill McGrew, Investment Officer, presented the item.

On **MOTION** by Mr. Harrigan, **SECONDED** and **CARRIED** to adopt the proposed Expatriation/Reincorporation Analysis Matrix in Attachment 2 of the agenda item (as revised) with respect to voting on the issue of expatriation and/or reincorporation as an amendment to CalPERS' existing Global Proxy Voting Principles.

AGENDA ITEM 6h – PUBLIC MARKETS, Proposed Revisions to Member Home Loan Program Regulations

Curtis Ishii, Senior Investment Officer, presented the item.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve commencement of the regulatory process to adopt the proposed amendments to CalPERS' Member Home Loan Program Regulations (Title 2 California Code of Regulations sections 561-561.14).

AGENDA ITEM 7 - POLICY SUBCOMMITTEE REPORT

Mark Anson, Chief Investment Officer, and Greg Hood, Division Chief, presented the item.

On **MOTION** by Mr. Carlson, **SECONDED** and **CARRIED** to approve the following items:

- a. Real Estate Policies
 - i) Core Apartment Real Estate
 - ii) Core Industrial Real Estate
 - iii) Core Office Real Estate
 - iv) Core Retail Real Estate
 - v) Enhanced Core Index Public Real Estate Equity Securities (Enhanced Core PREES)
 - vi) Extended Market Public Real Estate Securities (Extended Market PREES)
 - vii) International Equity Real Estate
 - viii)Responsible Contractor Program
- b. Master Glossary of Real Estate Terms
- c. Proposed June 2004 Policy Subcommittee Agenda

AGENDA ITEM 8 – CHIEF INVESTMENT OFFICER'S / ASSISTANT EXECUTIVE OFFICER'S REPORT

The Committee accepted the Chief Investment Officer's Report:

- a. Asset Allocation Report The total market value of the fund as of February 29, 2004, was approximately \$166.0 billion and the total book value was approximately \$129.9 billion. It was noted that the current real estate asset allocation is below the targeted range and an explanation was provided.
- b. Status Report There we no items to report.
- c. Disclosure of Closed Session Action Items
- d. General Pension Pool Consultant Finalist Selection Greg Hood, Division Chief, Peter Mixon, General Counsel, and Patricia Burgess, Assistant Chief Counsel, presented the item.

On **MOTION** by Mr. Harrigan, **SECONDED** and **CARRIED** to direct that interviews of the pension consultant pool finalists be scheduled for the full Committee upon conclusion of the order of business at the May 17, 2004 meeting.

e. Report on Compliance Monitoring Function – It was announced that the compliance officer position requested in the Investment Office 2004-05 budget will be moved to the Office of Audit Services to establish an enterprise-wide compliance office.

AGENDA ITEM 9 - ACTIVITY REPORTS

The Committee accepted the activity reports for the Alternative Investment Management Program and the Absolute Return Strategies Program. There were no items to report for the Real Estate Opportunistic Program.

AGENDA ITEM 10 - QUARTERLY PERFORMANCE / ANNUAL REVIEW REPORTS

There were no items to report.

AGENDA ITEM 11 – INVESTMENT TRANSACTIONS

The Committee accepted the Investment Transactions Reports.

AGENDA ITEM 12 - DRAFT MAY 2004 AGENDA

The Committee accepted the proposed May agenda.

AGENDA ITEM 14 – PUBLIC COMMENT

There were no additional comments from the public.

The next meeting of the Committee is scheduled for	r May 17, 2004 in Sacrament	0
California.		

The meeting was adjourned at 11:35 a.m.

FRED BUENROSTRO
Chief Executive Officer